

Message Text

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ACTION EUR-25

INFO OCT-01 NEA-14 ISO-00 CIAE-00 DODE-00 PM-07 H-03

INR-10 L-03 NSAE-00 NSC-07 PA-04 RSC-01 PRS-01 SP-03

SS-20 USIA-15 SWF-02 AID-20 CEA-02 COME-00 EB-11

FRB-02 CIEP-02 STR-08 TRSE-00 LAB-06 SIL-01 SAM-01

OMB-01 IO-14 DRC-01 AGR-20 SCI-06 SAJ-01 /212 W

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FM AMEMBASSY BONN

TO SECSTATE WASHDC 3699

INFO AMEMBASSY LONDON

AMEMBASSY THE HAGUE

AMEMBASSY BRUSSELS

AMEMBASSY ROME

AMEMBASSY PARIS

AMEMBASSY LUXEMBOURG

AMEMBASSY COPENHAGEN

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USMISSION EC BRUSSELS

AMEMBASSY CAIRO

C O N F I D E N T I A L SECTION 01 OF 02 BONN 10890

E.O. 11652: GDS

TAGS: PFOR, EGEN, EAID, EFIN, GW, EG

SUBJECT: VISIT OF EGYPTIAN FOREIGN MINISTER FAHMI

1. SUMMARY. AN EGYPTIAN DELEGATION HEADED BY FOREIGN MINISTER FAHMI VISITED BONN DURING THE WEEK OF JULY 1 AND PARTICIPATED IN THE FIRST MEETING OF THE JOINT GERMAN-EGYPTIAN GOVERNMENT COMMISSION ESTABLISHED DURING FORMER CHANCELLOR BRANDT'S VISIT TO CAIRO LAST APRIL. DURING THE VISIT THE TWO GOVERNMENTS SIGNED A TREATY ON CAPITAL ASSISTANCE, INITIALLED TWO OTHER AGREEMENTS ON TECHNICAL
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COOPERATION AND INVESTMENT GUARANTEES AND PLEDGED

CLOSER COOPERATION IN THE FIELDS OF SCIENCE AND TECHNOLOGY. THE FRG ALSO AGREED TO INCREASE ITS CEILING ON EXPORT CREDIT GUARANTEES. THE VISIT WAS WELL COVERED IN THE PRESS AND WAS CONSIDERED A SUCCESS BY FRG OFFICIALS. END SUMMARY.

2. EGYPTIAN FOREIGN MINISTER FAHMI HEADED A DELEGATION OF EGYPTIAN OFFICIALS WHICH VISITED GERMANY FROM JULY 2-6. ON JULY 4-5 HE AND FRG FOREIGN MINISTER GENSCHER CHAIRED THE OPENING SESSION OF THE GERMAN-EGYPTIAN COMMISSION FOR RECONSTRUCTION AND DEVELOPMENT WHICH RESULTED IN THE SIGNING OF ONE AGREEMENT AND THE INITIALLING OF TWO OTHERS. THE PRINCIPAL AGREEMENTS REACHED DURING THE VISIT ARE AS FOLLOWS.

3. CAPITAL ASSISTANCE. THE TWO GOVERNMENTS SIGNED AN AGREEMENT COMMITTING THE FRG TO LEND EGYPT DM155 MILLION DURING 1974. THIS SUM REPRESENTS AN INCREASE OF DM35 MILLION OVER THE AMOUNT ORIGINALLY PLANNED FOR 1974 AND ALSO OVER THE AMOUNT PROGRAMMED FOR 1973. IN ADDITION THE FRG ISSUED A GOOD WILL DECLARATION TO THE EFFECT THAT IT INTENDS TO MAKE SLIGHTLY LARGER AMOUNTS AVAILABLE IN 1975 AND 1976 SO THAT THE 3-YEAR TOTAL OF CAPITAL ASSISTANCE WOULD REACH A LEVEL OF DM500 MILLION. APPROXIMATELY 50 PERCENT OF THE GERMAN AID WILL CONSIST OF PROJECT ASSISTANCE PRIMARILY IN THE ELECTRICITY AND AGRICULTURAL SECTORS. PROPOSED PROJECTS WILL REQUIRE THE NORMAL CAREFUL SCRUTINY FROM THE GERMAN ADMINISTRATIVE AID ARM (KFW). THE REMAINING 50 PERCENT MAY BE USED FOR ESSENTIAL IMPORTS E.G. COMMODITIES, MACHINERY, ETC. WITH VERY LITTLE CONTROL OVER ITS END USE AND NO CONTROLS OVER THE USE OF COUNTERPART FUNDS. OUR SOURCES COMMENTED THAT THIS UNUSUALLY HIGH PROPORTION OF NON-PROJECT ASSISTANCE WAS AGREED TO IN ORDER TO ALLOW A SUBSTANTIAL SUM OF MONEY TO BE DISBURSED RAPIDLY, FREE OF THE USUAL RED TAPE. ACCORDING TO OUR FRG SOURCES A MAJOR PORTION OF THE GERMANY ASSISTANCE WILL BE USED FOR THE CONSTRUCTION OF A DM200 MILLION

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FERTILIZER FACTORY BY A GERMAN SUBSIDIARY OF HOECHST. SINCE THERE ARE NOT ENOUGH AID FUNDS AVAILABLE TO FINANCE THE FACTORY IN FULL, THE FRG IS WILLING TO PROVIDE A MIX OF EXPORT CREDIT AND CREDIT GUARANTEES ALONG WITH THE AID FUNDS. OUR SOURCES REPORT THAT THE EGYPTIANS HAD ASKED SPECIFICALLY FOR ASSISTANCE IN SUEZ CANAL RECONSTRUCTION. SINCE THE FRG HAS NO SPECIFIC

SOURCES OF FUNDS AVAILABLE FOR SUCH PURPOSES HOWEVER,
THE CAPITAL ASSISTANCE PACKAGE WAS WORKED OUT AS
DESCRIBED ABOVE.

4. TECHNICAL COOPERATION. THE SOLE PROJECT UNDER
THIS RUBRIC IS FRG AGREEMENT TO FINANCE DM11.3
MILLION OF A DM15 MILLION FEASIBILITY STUDY IN THE
QATTARA DEPRESSION. FINANCING WILL BE ON A
CONCESSIONAL LOAN BASIS (30 YEARS AT 2 PERCENT).

5. INVESTMENT GUARANTEE. THE TWO GOVERNMENTS
INITIALLED AN INVESTMENT GUARANTEE AGREEMENT WHICH

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C O N F I D E N T I A L SECTION 02 OF 02 BONN 10890

ACCORDING TO OUR SOURCES CONTAINS MORE GENEROUS PROVISIONS THAN THE RECENTLY PROMULGATED EGYPTIAN FOREIGN INVESTMENT LAW. ONE SUCH PROVISION FOR EXAMPLE PROVIDES FOR IMMEDIATE REPATRIATION OF PROCEEDS IN THE EVENT OF AN EXPROPRIATION. GERMAN BUSINESSMEN ARE REPORTEDLY VERY PLEASED WITH THE TERMS OF THE AGREEMENT AND PLAN TO SEND AN INDUSTRIAL DELEGATION TO VISIT EGYPT SOMETIME DURING THE COURSE OF THE YEAR.

6. COOPERATION IN SCIENCE AND TECHNOLOGY. DURING THE CONFIDENTIAL

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VISIT, A WORKING GROUP PREPARED A LIST OF FIELDS IN WHICH THE TWO GOVERNMENTS WOULD SEEK CLOSER COOPERATION PRIMARILY VIA JOINT RESEARCH EFFORTS. THESE FIELDS ARE NUCLEAR PHYSICS, PETROLEUM RESEARCH, SOLAR ENERGY, URANIUM PROSPECTING, DESALINIZATION, BIOTECHNOLOGY, ALGAE TECHNOLOGY, AND FOODSTUFFS.

7. EXPORT CREDIT GUARANTEES. IN ADDITION TO THE ABOVE UNDERSTANDINGS, THE FRG AGREED TO PROVIDE EGYPT WITH EXPORT CREDIT GUARANTEES UP TO A TOTAL LEVEL OF DM250 MILLION. OUR ECONOMIC SOURCES ASSERTED THAT THIS DECISION WAS TOTALLY UNJUSTIFIABLE ON ECONOMIC GROUNDS AND THAT CHANCELLOR SCHMIDT PERSONALLY MADE THE DECISION OVER THE OPPOSITION OF THE ECONOMICS AND FINANCE MINISTRIES. THIS DM250 MILLION FIGURE REPRESENTS A ONE-SHOT COMMITMENT AND IS NOT A NEW CEILING UNDER WHICH CREDIT GUARANTEES WILL BE ROLLED OVER. OUR SOURCES WERE UNCERTAIN AS TO WHAT WILL HAPPEN, HOWEVER, ONCE THE CEILING IS REACHED AND REPAYMENTS ARE BEING MADE.

8. COMMENT. THE FRG IS OBVIOUSLY MAKING A STRONG EFFORT TO INCREASE ITS INFLUENCE IN CAIRO VIA ECONOMIC MEANS. THE THREE YEAR AID PACKAGE, EVEN THOUGH THE LAST TWO YEARS CONTAIN NO BINDING COMMITMENT, IS AN EXTRAORDINARY GESTURE AND THE AMOUNT OF AID INVOLVED WILL PLACE EGYPT SECOND ONLY TO INDIA AS AN FRG AID RECIPIENT. GIVEN EGYPT'S CREDIT RATING, THE EXPORT GUARANTEE LIMIT IS EVEN MORE EXTRAORDINARY EXCEEDING EVEN THE LIMITS FOR YUGOSLAVIA AND ROMANIA. THE INVESTMENT GUARANTEE AGREEMENT MAY BE OF EVEN MORE SIGNIFICANCE IN THE LONG RUN HOWEVER. FRG OFFICIALS HAVE TOLD US THAT EFFECTIVE ECONOMIC COOPERATION CAN ONLY OCCUR TO THE EXTENT THAT GERMAN

BUSINESSMEN BECOME MORE ACTIVE IN EGYPT. THIS
AGREEMENT OPENS THE DOOR FOR SUCH INCREASED
ACTIVITY.
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